

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Houghton Township	County Keweenaw
Fiscal Year End 03/31/2006	Opinion Date 06/07/2006	Date Audit Report Submitted to State 06/20/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

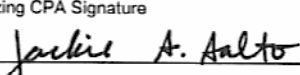
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 337-2727		
Street Address 116 Fifth Street		City Calumet	State MI	Zip 49913
Authorizing CPA Signature 	Printed Name Jackie A. Aalto		License Number 1101022394	

HOUGHTON TOWNSHIP, MICHIGAN
Keweenaw County

FINANCIAL REPORT

Year ended March 31, 2006

HOUGHTON TOWNSHIP, MICHIGAN
FINANCIAL REPORT
Year ended March 31, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board Members
Houghton Township, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Houghton Township, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton Township, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Houghton Township, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houghton Township, Michigan's basic financial statements. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

June 7, 2006

HOUGHTON TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

The management of Houghton Township, Michigan ("the Township") offers readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of this fiscal year by \$127,327 (net assets). Governmental activities represented \$112,735 of this total, while business-type activities accounted for \$14,592 of this total.
- The Township's total net assets increased by \$3,073.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, sanitation, recreation and culture, and cemetery operations. The business-type activity of the Township includes the operations of the water system.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains three individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Township adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 13 - 15 of this report.

Proprietary funds. The Township maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as *business-like activities* in the government-wide financial statements. The Township uses the enterprise fund to account for the operations of its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water Fund, which is considered to be a major fund of the Township.

The basic proprietary fund financial statements can be found on pages 16 - 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 26 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on page 28 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 30 and 31 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceed liabilities by \$127,327 at the close of the most recent fiscal year.

Thirty-nine percent of the Township's net assets reflect its investment in capital assets (e.g., land, buildings, equipment, furnishings and the water system). The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Houghton Township, Michigan's Net Assets

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 76,347	\$ 5,250	\$ 81,597
Capital assets	<u>39,628</u>	<u>9,732</u>	<u>49,360</u>
Total Assets	<u>115,975</u>	<u>14,982</u>	<u>130,957</u>
Long-term liabilities outstanding			
Other liabilities	<u>3,240</u>	<u>390</u>	<u>3,630</u>
Total Liabilities	<u>3,240</u>	<u>390</u>	<u>3,630</u>
Net Assets:			
Invested in capital assets, net of related debt	39,628	9,732	49,360
Unrestricted	<u>73,107</u>	<u>4,860</u>	<u>77,967</u>
Total Net Assets	<u>\$ 112,735</u>	<u>\$ 14,592</u>	<u>\$ 127,327</u>

The remaining balance of *unrestricted net assets* (61% or \$77,967) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Township's net assets have increased by \$3,073 during the current fiscal year. Governmental activities increased the Township's net assets by \$4,597. Business-type activities decreased the Township's net assets by \$1,524. This decrease is the result of depreciation expense of \$2,259. Key elements are as follows:

Houghton Township's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,580	\$ 10,381	\$ 11,961
Operating grants & contributions	8,478		8,478
General revenues:			
Property taxes	27,501		27,501
State-shared revenues	8,475		8,475
Other	<u>2,440</u>	<u>58</u>	<u>2,498</u>
Total Revenues	<u>48,474</u>	<u>10,439</u>	<u>58,913</u>
Expenses:			
General government	31,524		31,524
Public safety	2,998		2,998
Public works	6,853		6,853
Recreation & culture	2,401		2,401
Cemetery	101		101
Water	<u> </u>	<u>11,963</u>	<u>11,963</u>
Total Expenses	<u>43,877</u>	<u>11,963</u>	<u>55,840</u>
Change in net assets	4,597	(1,524)	3,073
Net Assets – Beginning	<u>108,138</u>	<u>16,116</u>	<u>124,254</u>
Net Assets – Ending	<u>\$ 112,735</u>	<u>\$ 14,592</u>	<u>\$ 127,327</u>

The most significant portion of the revenues for all governmental activities of the Township comes from property taxes. The Township's operating millage was 4.105, which includes 2.8125 extra voted mills.

State shared revenue is a major source of revenue and is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the state sales tax. During the year, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary cuts by the State in revenue sharing payments.

The most significant portion of the expenses for all governmental activities of the Township is for general government. These expenses represent the Township hall activities.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$71,034. All of this amount constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year the total fund balance, all of which is unreserved and undesignated, was \$64,271. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 133% of total General Fund expenditures

The fund balance of the Township's General Fund has decreased by \$1,854 during the current fiscal year.

Proprietary funds. The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets at the end of the year amounted to \$14,592. Of this amount, \$9,732 was invested in capital assets, net of related debt and \$4,860 was unrestricted.

General Fund Budgetary Highlights

During the year there were only minor changes in total appropriations between the original and final amended budget.

Capital Assets

The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2006, amounts to \$49,360 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, furnishings and the water system.

Houghton Township, Michigan's Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 30,480	\$	\$ 30,480
Buildings & site improvements	3,912	7,084	10,996
Equipment & furnishings	5,236		5,236
Water system		2,648	2,648
Total Assets	<u>\$ 39,628</u>	<u>\$ 9,732</u>	<u>\$ 49,360</u>

Additional information on the Township's capital assets can be found in note 4 on page 25 of this report.

Request for Information

This financial report is intended to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Houghton Township, 5059 4th Street, Eagle River, Michigan 49950.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Net Assets

March 31, 2006

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Assets			
Cash	\$ 48,922	\$ 3,416	\$ 52,338
Investments	22,619		22,619
Receivables, net	4,806	1,834	6,640
Capital assets not being depreciated	30,480		30,480
Capital assets, net of accumulated depreciation	<u>9,148</u>	<u>9,732</u>	<u>18,880</u>
Total Assets	<u>115,975</u>	<u>14,982</u>	<u>130,957</u>
Liabilities			
Accounts payable & other current liabilities	<u>3,240</u>	<u>390</u>	<u>3,630</u>
Net Assets			
Invested in capital assets, net of related debt	39,628	9,732	49,360
Unrestricted	<u>73,107</u>	<u>4,860</u>	<u>77,967</u>
Total Net Assets	<u>\$ 112,735</u>	<u>\$ 14,592</u>	<u>\$ 127,327</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Activities

Year ended March 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities:							
General government	\$ 31,524	\$ 80	\$ 5,201	\$	\$ (26,243)	\$	\$ (26,243)
Public safety	2,998		1,485		(1,513)		(1,513)
Public works	6,853		1,792		(5,061)		(5,061)
Recreation & culture	2,401				(2,401)		(2,401)
Cemetery	<u>101</u>	<u>1,500</u>			<u>1,399</u>		<u>1,399</u>
Total Governmental Activities	43,877	1,580	8,478		(33,819)		(33,819)
Business-type Activities:							
Water	<u>11,963</u>	<u>10,381</u>				<u>(1,582)</u>	<u>(1,582)</u>
Total Primary Government	<u>\$ 55,840</u>	<u>\$ 11,961</u>	<u>\$ 8,478</u>	<u>\$</u>	<u>(33,819)</u>	<u>(1,582)</u>	<u>(35,401)</u>
General Revenues:							
Property taxes					27,501		27,501
State-shared revenues					8,475		8,475
Unrestricted investment earnings					1,514	58	1,572
Other					<u>926</u>		<u>926</u>
Total General Revenues					<u>38,416</u>	<u>58</u>	<u>38,474</u>
Change in Net Assets					4,597	(1,524)	3,073
Net Assets – Beginning					<u>108,138</u>	<u>16,116</u>	<u>124,254</u>
Net Assets – Ending					<u>\$ 112,735</u>	<u>\$ 14,592</u>	<u>\$ 127,327</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Balance Sheet Governmental Funds

March 31, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 42,159	\$ 6,763	\$ 48,922
Investments	22,619		22,619
Receivables (net):			
Current tax levy	1,366		1,366
Delinquent taxes	1,702		1,702
Interest	328		328
Due from other governmental units	<u>1,410</u>	<u></u>	<u>1,410</u>
Total Assets	<u>\$ 69,584</u>	<u>\$ 6,763</u>	<u>\$ 76,347</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 702	\$	\$ 702
Accrued liabilities	516		516
Deferred taxes	2,073		2,073
Due to other governmental units	<u>2,022</u>	<u></u>	<u>2,022</u>
Total Liabilities	<u>5,313</u>	<u></u>	<u>5,313</u>
Fund Balances			
Unreserved:			
General fund	64,271		64,271
Special revenue funds	<u></u>	<u>6,763</u>	<u>6,763</u>
Total Fund Balances	<u>64,271</u>	<u>6,763</u>	71,034
Total Liabilities and Fund Balances	<u>\$ 69,584</u>	<u>\$ 6,763</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 39,628

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 2,073

Net assets of governmental activities \$ 112,735

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year ended March 31, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 28,359	\$	\$ 28,359
Intergovernmental – state	15,468	1,485	16,953
Charges for services		1,500	1,500
Interest & rents	1,565	29	1,594
Other revenue	<u>926</u>		<u>926</u>
Total Revenues	<u>46,318</u>	<u>3,014</u>	<u>49,332</u>
Expenditures			
Current			
General government	26,712		26,712
Public safety	2,500	498	2,998
Public works	6,663		6,663
Recreation & culture	2,401		2,401
Cemetery		101	101
Other	4,189		4,189
Debt service	<u>5,707</u>		<u>5,707</u>
Total Expenditures	<u>48,172</u>	<u>599</u>	<u>48,771</u>
Net Change in Fund Balances	(1,854)	2,415	561
Fund Balances – Beginning	<u>66,125</u>	<u>4,348</u>	
Fund Balances – Ending	<u>\$ 64,271</u>	<u>\$ 6,763</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (813)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (858)

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances (Continued) Governmental Funds

Year ended March 31, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Repayments of debt principal is an expenditure in the governmental funds, but not in the statement of activities.			<u>5,707</u>
Change in Net Assets of Governmental Activities			<u>\$ 4,597</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Net Assets Proprietary Fund

March 31, 2006

	Business-type Activities Enterprise Fund Water
Assets	
Current Assets:	
Cash	\$ 3,416
Accounts receivable, net	<u>1,834</u>
Total Current Assets	5,250
Noncurrent Assets:	
Capital asset, net	<u>9,732</u>
Total Assets	<u>14,982</u>
Liabilities	
Current Liabilities:	
Accounts payable	287
Accrued liabilities	<u>103</u>
Total Current Liabilities	<u>390</u>
Net Assets	
Invested in capital assets, net of related debt	9,732
Unrestricted	<u>4,860</u>
Total Net Assets	<u>\$ 14,592</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund**

Year ended March 31, 2006

	Business-type Activities Enterprise Fund Water
Operating Revenues	
Charges for services	\$ 10,381
Operating Expenses	
Wages & payroll taxes	3,112
Utilities	2,935
Supplies & maintenance	3,081
Miscellaneous	576
Depreciation	2,259
Total Operating Expenses	11,963
Operating Loss	(1,582)
Nonoperating Revenues	
Interest income	58
Change in Net Assets	(1,524)
Total Net Assets – Beginning	16,116
Total Net Assets – Ending	\$ 14,592

The notes to the financial statements are an integral part of this financial statement.

HOUGHTON TOWNSHIP, MICHIGAN

**Statement of Cash Flows
Proprietary Fund**

Year ended March 31, 2006

	Business-type Activities Enterprise Fund Water
Cash Flows from Operating Activities	
Receipts from customers	\$ 10,742
Payments to suppliers	(6,666)
Payments to employees	<u>(3,112)</u>
Net cash provided by operating activities	964
Cash Flows from Investing Activities	
Interest	<u>58</u>
Net increase in cash	1,022
Cash – Beginning	<u>2,394</u>
Cash – Ending	<u><u>\$ 3,416</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,582)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	2,259
Decrease in receivables	361
Decrease in accounts payable	<u>(74)</u>
Net cash provided by operating activities	<u><u>\$ 964</u></u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

**Statement of Net Assets
Fiduciary Fund**

March 31, 2006

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 28,255</u>
Liabilities	
Due to other governmental units	<u>\$ 28,255</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

Houghton Township was organized as a General Law Township and is located in Keweenaw County, Michigan. It covers an area of approximately 36 square miles. The Township is governed by an elected Board of Trustees consisting of five members, which are a supervisor, clerk, treasurer and two trustees. It also has one appointed constable. Services provided to the residents of the Township include fire protection, a water supply system, recreation and community enrichment.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary government) in the financial reporting entity's financial statements.

Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Township has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, when applicable, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary funds:

The *Water Fund* accounts for the activity of the Township's water system.

Additionally, the Township reports the following nonmajor governmental funds: Cemetery and Liquor.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Township has elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Township's enterprise fund are charges to customers for services. Operating expenses for the enterprise fund includes cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Township did not have any short-term investments at March 31, 2006.

Investments – Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans.) All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on December 1st and are payable by February 14 of each year, at which time all unpaid taxes become delinquent. Delinquent real property taxes are collected by the County. Delinquent personal property taxes continue to be collected by the Township.

It is the Township’s policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$6,231,062, of which ad valorem taxes levied consisted of 1.2925 mills for operating purposes, and 2.8125 mills in extra voted millage. This resulted in \$8,052 for operating and \$17,524 for extra voted. These amounts are recognized in the General Fund financial statements as taxes receivable – current or as tax revenue.

Capital Assets – Capital assets, which include property, plant, equipment, and the water system, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Property, plant, equipment and the water system are depreciated using the straight-line method over the following estimated useful lives:

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

<u>Assets</u>	<u>Years</u>
Buildings	20 to 50 years
Site Improvements	10 to 20 years
Water System	40 to 60 years
Equipment & Furnishings	7 to 15 years

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. Encumbrance accounting is not employed in the governmental funds.

Note 3 Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

The Township has designated one bank for the deposit of Township funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash	\$ 48,922	\$ 3,416	\$ 52,338
Investments	<u>22,619</u>	<u> </u>	<u>22,619</u>
Total	<u>\$ 71,541</u>	<u>\$ 3,416</u>	<u>\$ 74,957</u>

The bank balance of the primary government's deposits is \$105,425, all of which is covered by federal depository insurance.

Note 4 Capital Assets

Capital asset activity for the year ended March 31, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	<u>\$ 30,480</u>	<u>\$ </u>	<u>\$ </u>	<u>\$ 30,480</u>
Capital assets being depreciated:				
Buildings & site improvements	10,000			10,000
Equipment & furnishings	<u>6,654</u>	<u> </u>	<u> </u>	<u>6,654</u>
Subtotal	<u>16,654</u>	<u> </u>	<u> </u>	<u>16,654</u>
Accumulated depreciation:				
Building & site improvements	(5,940)	(148)		(6,088)
Equipment & furnishings	<u>(753)</u>	<u>(665)</u>	<u> </u>	<u>(1,418)</u>
Subtotal	<u>(6,693)</u>	<u>(813)</u>	<u> </u>	<u>(7,506)</u>
Net capital assets being depreciated	<u>9,961</u>	<u>(813)</u>	<u> </u>	<u>9,148</u>
Governmental activities net capital assets	<u>\$ 40,441</u>	<u>\$ (813)</u>	<u>\$ </u>	<u>\$ 39,628</u>

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets being depreciated:				
Building & site improvements	40,000			40,000
Water system	<u>44,578</u>	<u> </u>	<u> </u>	<u>44,578</u>
Subtotal	<u>84,578</u>	<u> </u>	<u> </u>	<u>84,578</u>
Accumulated depreciation:				
Building & site improvements	(32,704)	(212)		(32,916)
Water system	<u>(39,883)</u>	<u>(2,047)</u>	<u> </u>	<u>(41,930)</u>
Subtotal	<u>(72,587)</u>	<u>(2,259)</u>	<u> </u>	<u>(74,846)</u>
Business-type activities net capital assets	<u>\$ 11,991</u>	<u>\$ (2,259)</u>	<u>\$ </u>	<u>\$ 9,732</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 623
Public works	<u>190</u>
Total depreciation expense – governmental activities	<u>\$ 813</u>
Business-type activities	
Water	<u>\$ 2,259</u>

Note 5 Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and employee injuries (workers' compensation). All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 6 Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Required Supplementary Information

HOUGHTON TOWNSHIP, MICHIGAN

Budgetary Comparison Schedule General Fund Year ended March 31, 2006

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 66,125	\$ 66,125	\$ 66,125
Resources (Inflows):			
Taxes	24,800	25,500	28,359
Intergovernmental – state	12,320	12,320	15,468
Interest & rents	1,550	1,500	1,565
Other revenue	<u>15,250</u>	<u>24,409</u>	<u>926</u>
Amounts Available for Appropriation	<u>120,045</u>	<u>129,854</u>	<u>112,443</u>
Charges to Appropriations (Outflows):			
General government	37,385	39,080	26,712
Public safety	1,500	2,500	2,500
Public works	5,793	6,343	6,663
Recreation & culture	5,700	3,700	2,401
Other	3,350	4,100	4,189
Debt service	<u>5,707</u>	<u>5,707</u>	<u>5,707</u>
Total Charges to Appropriations	<u>59,435</u>	<u>61,430</u>	<u>48,172</u>
Ending Budgetary Fund Balance	<u>\$ 60,610</u>	<u>\$ 68,424</u>	<u>\$ 64,271</u>

Other Supplementary Information

HOUGHTON TOWNSHIP, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2006

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Cemetery</u>	<u>Liquor</u>	
Assets			
Cash	<u>\$ 4,070</u>	<u>\$ 2,693</u>	<u>\$ 6,763</u>
Liabilities and Fund Balance			
Liabilities	\$	\$	\$
Fund Balances			
Unreserved	<u>4,070</u>	<u>2,693</u>	<u>6,763</u>
Total Liabilities and Fund Balances	<u>\$ 4,070</u>	<u>\$ 2,693</u>	<u>\$ 6,763</u>

HOUGHTON TOWNSHIP, MICHIGAN

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended March 31, 2006**

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Cemetery</u>	<u>Liquor</u>	
Revenues			
Intergovernmental – state	\$	\$ 1,485	\$ 1,485
Charges for services	1,500		1,500
Interest	<u>29</u>	<u></u>	<u>29</u>
Total Revenues	<u>1,529</u>	<u>1,485</u>	<u>3,014</u>
Expenditures			
Current:			
Public safety		498	498
Cemetery	<u>101</u>	<u></u>	<u>101</u>
Total Expenditures	<u>101</u>	<u>498</u>	<u>599</u>
Net Change in Fund Balances	1,428	987	2,415
Fund Balances – Beginning	<u>2,642</u>	<u>1,706</u>	<u>4,348</u>
Fund Balances – Ending	<u>\$ 4,070</u>	<u>\$ 2,693</u>	<u>\$ 6,763</u>

June 7, 2006

To the Board Members
Houghton Township, Michigan

In planning and performing my audit of the financial statements of Houghton Township, Michigan for the year ended March 31, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect Houghton Township, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Township's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions. This includes:
 - a. Updating contracts on an annual basis.
 - b. Documenting wages and fees annually.
 - c. Adopt a formal capital asset policy.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the March 31, 2006 financial statements, and this report does not affect my report on those financial statements dated June 7, 2006. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Jackie A. Aalto, CPA